Santa Monica’s Post-COVID Future

Organizational Restructuring Summary

COVID-19's Impact on Santa Monica

COVID-19 has changed the world, and it has changed Santa Monica. The viral outbreak is believed to have erased nearly one-third of domestic economic output in the United States in the current quarter. Today, our community lives largely at home. When they leave, they are, and likely will remain, subject to social distancing requirements in some form. And, when City services and businesses do reopen, they will do so in phases and stages, with restrictions on public participation and stringent new cleaning and public health requirements to keep us safe.

The certainty that re-opening of economic activity and the lifting of social distancing requirements will be gradual and phased underscores the reality that we will not soon be returning to “normal” as we knew it before the COVID-19 pandemic. At least until there is collective immunity from the virus, the way we gather, work, play, travel, and shop will be fundamentally altered. Restrictions on travel, public gatherings, and events will continue for a substantial period of time. There will be continued major impacts to operations of schools and workplaces, even as they gradually reopen. Business operations will look very different due to density, distancing, and sanitization requirements. And individuals and families across our community will have new and changed needs, as high-risk populations seek to protect themselves from the virus and others struggle financially to meet their basic needs.

This daunting reality requires the City to realign its operations, re-scaling services and programs to ensure the ability to focus on three core missions:

1. Provide **essential services** to achieve a clean and safe Santa Monica
2. Respond to the **public health emergency**
3. Lead a broad and inclusive **economic recovery**

Fiscal Overview

The COVID-19 pandemic is having a devastating effect on the global, national, and local economies. The nearly universal lockdowns of economies across the globe has been coupled with a growing realization that any path to what was previously considered normal will be long and painful for many. Even if the virus is relatively contained by the summer or fall of 2020, economies are facing the worst period of economic growth since the Depression. Preliminary first quarter Gross Domestic Product (GDP) contracted 4.8%, the worst quarter since 2008, and the second quarter is anticipated to be much worse, with some economists anticipating second quarter data to show that GDP contracted at an annual rate of 30 percent or more.

Santa Monica’s economy has been and will continue to be significantly damaged by the COVID-19 pandemic. Cities with a high dependence on sales and hotel occupancy taxes are expected to suffer the most. Tourism and hospitality are key components of the Santa Monica economy. It will likely be months before international travel resumes in a meaningful way, and business travel may never return to pre-virus levels. People’s shopping habits may also be altered for a significant amount of time. With this in mind, City revenues are anticipated to be negatively affected in FY 2020-21 and likely longer.

The unprecedented decline in revenues that we are experiencing is having a catastrophic impact on the City’s budget in all funds. In the General Fund, tax revenues as well as fee and rate revenues have come to a standstill in the months the Safer at Home orders have been in place. Other funds are also experiencing the impacts of revenue loss.

On April 14, 2020, staff presented their initial projections of revenue declines on the General Fund forecast, based on a review completed at the end of March. These projections showed deficits of $72 million in FY 2019-20, $154 million in FY 2020-21, and $72 million in FY 2021-22. In the weeks since that initial projection, we have been able to observe firsthand how the Stay at Home orders have changed local revenue streams, and we have benefited from modelling forecasts now available from experts on sales tax and the local tourism industry. With this new information, staff has amended its initial forecast. Broken down, the current projections (which remain subject to change) show:

- $48 million deficit in FY 2019-20 (March – June alone)
- $102 million deficit in FY 2020-21
- $74 million deficit in FY 2021-22

Why this large of a deficit?

- Sales Taxes are projected to decrease by nearly 14% in FY 2020-21 after a similar decrease in FY 2019-20.
- Transient Occupancy Taxes (TOT) are projected to decrease by 42% in FY 2020-21 after a 21% decrease in FY 2019-20.
- Parking Revenues (including parking fines) are projected to decline by about 9% in FY 2020-21 after a 21.7% decrease in FY 2019-20. During Stay at Home orders, revenues are running at about 5-10% of typical levels.
- We cannot anticipate a significant or timely federal bailout. While we have initiated the process to apply to FEMA for disaster reimbursement funds, those reimbursements are strictly for work directly addressing COVID-19.

We have taken immediate actions to address current and projected deficits using one-time funds:

- $26.5 million reduction in capital improvement budget in general fund FY 2019-20 with additional savings of $26.3 million through 2022.
- $9.2 million released from assigned reserves in the General Fund.
- $18 million of reserves released for appropriation.
- $9.7 million from the Economic Uncertainty Fund.
- $24 million from litigation settlements returned from the water fund to the general fund.
- Suspend 2020-2021 CalPERS payment and shift to a 15-year repayment plan.
- Create $20 million Shutdown Fund for a fall or winter shuttering and $1 million Economic Recovery Fund.

Restructuring Overview

The restructuring plan aligns the City's operations with the new reality brought by COVID-19. The plan focuses the City's people and operations on the City's three post-COVID-19 priorities: providing foundational services for a clean and safe Santa Monica, ensuring effective emergency response, and facilitating lasting economic recovery for all in our community. At the same time, the plan addresses the fiscal challenges outlined above, balancing the City's budget for each of the next two fiscal years despite the projected decreases in City revenues and setting aside funds to support economic recovery efforts and to address the possibility of a second shutdown should COVID-19 cases surge again in the coming fiscal year. Key points of the plan include:

- Citywide, proposed reductions total $86.2 million in net on-going costs, including 337.2 permanent and 143.9 temporary positions. The number of permanent positions from the general fund is 258.6.
- The Interim City Manager and Interim City Attorney have taken 20% reductions in pay. Department Heads, executive staff, and the Police and Fire Chiefs will take cuts up to 15%.
- Create a $20 million Shutdown Fund to cover a fall or winter resumption of more stringent stay at home orders.
- Create a $1 million Economic Recovery Fund.